



# All About the Capital Magnet Fund

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**NCSHA HFA Institute – January 16, 2020**

**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND**

[www.cdfifund.gov](http://www.cdfifund.gov)

# How CMF Fits into the CDFI Fund's Mission & Vision



- **Mission & Vision:** The mission of the Community Development Financial Institutions Fund (CDFI Fund) is to increase economic opportunity and promote community development investments for underserved populations and distressed communities in the United States. Our long term vision is an America where all people have access to affordable credit, capital and financial services.
- **CMF:** The Capital Magnet Fund (CMF) is one of many CDFI Fund programs. CMF was created to spur private investment in affordable housing and related economic development efforts to revitalize neighborhoods across the country by serving low-income families and communities.



Capitalized terms not defined in the presentation are defined in the CMF Interim Rule (as amended February 8, 2016; 12 CFR Part 1807)

[Link to CMF Interim Rule](#)

# Purpose of the Capital Magnet Fund



CMF provides competitively-awarded grants to CDFIs and eligible Nonprofit Organizations to attract private capital for and increase investment in:

- Development, Rehabilitation, Preservation, and Purchase of Affordable Housing – both Homeownership and rental – targeted to Low-, Very Low-, and Extremely Low-Income Families; and
- Economic Development Activities designed to stabilize and/or revitalize Areas of Economic Distress such as renovated buildings that will house neighborhood businesses and Community Service Facilities.

# CMF History & Funding



- CMF was established through the Housing and Economic Recovery Act (HERA) of 2008 (Public Law 110-289, section 1131).
- The source of funding for CMF comes from allocations from the government-sponsored enterprises (GSEs) – Fannie Mae and Freddie Mac.
- Prior CMF rounds were conducted in FY 2010, FY 2016, FY 2017 and FY 2018. FY 2019 Round is currently underway.



# Attracting Capital is Key



- CMF “primes the pump” for affordable housing and economic development.
- For every \$1 in CMF Awards, Recipients are required to generate at least \$10 in Eligible Project Costs (CMF Award plus Leveraged Costs).
- CMF spurs investment from banks, foundations, private investors, state & local governments.



# Other CMF Priorities



## Affordable Housing Financing that:

- Creates and preserves housing that is affordable to individuals and Families with Low-, Very Low- and Extremely Low-Incomes.
- Expands Homeownership opportunities for Low-Income Families.

## Economic Development Financing that:

- Helps to stabilize and revitalize cities and rural communities experiencing economic distress.
- Creates jobs by investing in Community Service Facilities and physical structures in which neighborhood-based businesses operate.

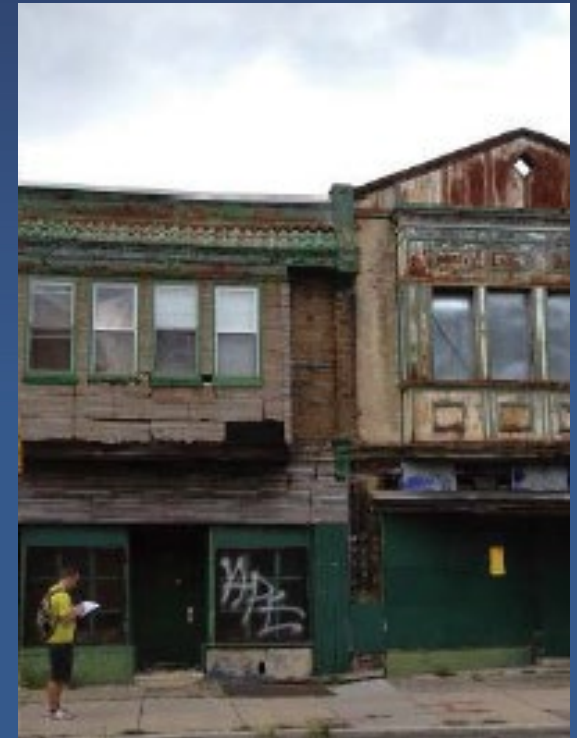
## Geographic Diversity throughout the country

- Ensuring that CMF Recipients serve diverse geographic areas, including Metropolitan and Non-Metropolitan Areas as well as multiple states.

# Targeting Areas of Economic Distress



- Recipients are encouraged to use their grants to assist Areas of Economic Distress (AED).
- Areas of Economic Distress are defined in the NOFA for each funding round.
- For the FY 2018 Round, these areas included census tracts where/that:
  - At least 20% of Very Low Income households spend over half of income on housing; or
  - Designated Opportunity Zone; or
  - Low Income Housing Tax Credit (LIHTC) qualified Census Tract; or
  - Over 20% of the households have incomes below poverty and rental vacancy is at least 10%; or
  - Over 20% of the households have incomes below poverty and homeowner vacancy is at least 10%; or
  - It is an Underserved Rural Area as defined in the CMF Interim Rule.



# Eligible Uses of CMF Award Dollars



- Affordable Housing Funds
- Loan Loss Reserves
- Revolving Loan Funds
- Economic Development Activities
- Risk-Sharing Loans
- Loan Guarantees



# CMF Award Restrictions



- No single Applicant may apply for or receive more than 15% of the total award amount available under the FY 2019 NOFA.
- No more than 30% of a CMF Award may be used for Economic Development Activities.



# Applicant Eligibility Factors



- To be eligible to apply for a CMF Award, an Applicant must:
  - Be certified as a CDFI by the CDFI Fund; **OR**
  - Be a Nonprofit Organization having as one of its principal purposes the development or management of affordable housing.
- All Applicants must have been in existence as a legally formed entity for at least three years prior to the Application deadline.
- All Applicants must submit audited financial statements for the most recently completed 2 fiscal years as of the date of the NOFA.
- The Applicant must meet all eligibility requirements on its own behalf and may not rely on any Affiliates or Subsidiaries to meet this requirement.

# Leveraging Capital



- In community development finance, the term “leverage” means the ability to use capital from other sources to maximize public resources.
- CMF Recipients are required to leverage their CMF Award at a ratio of least ten to one. For example, an Award of \$5 million must generate at least \$50 million in Eligible Project Costs.
- Sources of capital leveraged by the CMF Award may be loans from banks, program-related investments from foundations, Low Income Housing Tax Credits (LIHTCs) investment, funds contributed by the Recipient, state or local governments or any number of other private or public sources.
- The combination of the CMF Award and the Leveraged Costs make up Eligible Project Costs for the CMF Program.



# Types of Leverage:

## Enterprise Level Leverage



**Enterprise Level:** Capital earned, borrowed, or raised by the Applicant which is designated for the Applicant's use and ultimately used to pay for Leveraged Costs but is not initially restricted for use for specific properties at the time it is earned, borrowed or raised.

### Private, Third-Party Investment

Capital raised from private sources which is invested in or loaned to the Applicant and allocated to a CMF-related housing fund or similar financing activity. Examples include loans from financial institutions and program-related investments (PRI) from foundations.

### Contributed Capital

Capital from the Applicant's own resources which is loaned or contributed to a CMF-related housing fund or similar financing activity. Examples include retained earnings or equity.

### Public Leverage

Grants, loans or other investments to the Applicant from state, local or other federal government programs which is loaned or contributed to a CMF-related housing fund or similar financing activity.

# Types of Leverage: Project-Level Leverage



**Project Level:** Capital used to pay Leveraged Costs that is restricted to a specific project when it is raised.

## Private Investment

Capital raised from private sources which is invested in or loaned to a specific project. This could include loans from financial institutions, secured by the real estate and investments through the sale of LIHTCs.

## Public Investment

Grants, loans or other investments for a specific project from state, local or other federal government programs.

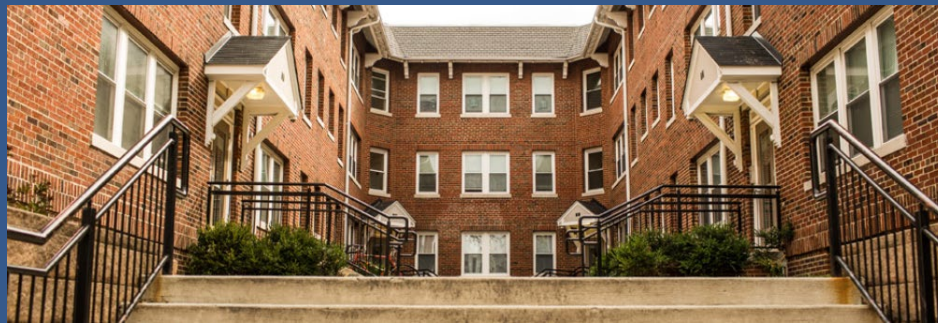
# Types of Leverage:

## Reinvestment Leverage



**Reinvestment Level:** Redeploying repaid proceeds of CMF Award dollars and/or Enterprise-level capital during the 5-year investment period.

- Recipients are required to reinvest any principal/equity repayments of CMF Award dollars into eligible activities during the five-year Investment Period.



# Investing in Affordable Housing



- One of the most critical objectives of the Capital Magnet Fund (CMF) is to finance Affordable Housing.
- CMF Awards may be used to finance both rental and Homeownership Affordable Housing.
- Rental housing may be multifamily (5+ units) or single family, and while most rental housing is developed as one property, scattered site development is permitted.
- Homeownership is usually single family housing (4 or less units). This may include single family-detached, condominium, co-operative and manufactured housing.



# Targeting Low-, Very Low, and Extremely Low-Income Families



Another priority of the Capital Magnet Fund (CMF) is the financing and/or development of housing that is affordable to families and individuals with Low-, Very Low- or Extremely Low-Income.

## Low-Income

Families with incomes at or below 80% of the Area Median Income (AMI).

## Very Low-Income

Families with incomes at or below 50% of the Area Median Income (AMI).

## Extremely Low-Income

Families with incomes at or below 30% of the Area Median Income (AMI).

\*\*Maximum income for CMF financed housing is 120% of AMI





# Affordability Requirements



For housing assisted with a CMF Award, affordability must be met in several ways:

## Income Limits

The maximum income level for Eligible-Income Families may not exceed 120% of AMI. In Multifamily Rental Projects, at least 20% of the units must be set-aside for Families with incomes at or below 80% of AMI.

## Additional Income Targeting Benchmarks

Further income targeting may be established in the CMF NOFA.

## Dollars

100% of the total Eligible Project Costs (EPCs) must be attributable to units that serve Eligible-Income Families. 50% of the EPCs must be attributable to units that serve Families at Low-, Very Low- and Extremely Low- Incomes. Eligible Project Costs is comprised of the CMF Award dollars plus the Leveraged Costs.

# Affordability Requirements (Continued)



In addition to income limits, income targeting benchmarks, the CMF program has additional requirements which include:

## Long Term Restrictions

Each Project must be affordable for at least 10 years. For rental housing, this is accomplished through deed restrictions, land covenants or other mechanisms which survive sale and transfer during the Affordability Period. For Homeownership, the Recipient must develop its own plan for achieving this 10 year affordability in the event of resale.

## Rents

While Families must meet the income limits at the time of initial occupancy, the rents control affordability. Rents are set using a formula similar to that used for LIHTCs.

## Homeownership Cost Limits

The purchase price limits for Homeownership are capped at 95% of the median purchase price for the area as determined by HUD

# Economic Development Overview



- CMF Awards finance Affordable Housing Activities, as well as related Economic Development Activities (EDA), including the financing of Community Service Facilities.
- Recipients can use no more than 30 percent of their CMF Awards for Economic Development Activities. CMF Awards may only be used for the financing and/or support of Projects and may not be used as grants or loans to businesses.



# Examples of Eligible Economic Development Activities



Some examples of eligible Community Service Facilities include, but not limited to:

- Day care centers and schools
- Grocery stores
- Health clinics
- Food banks
- Community centers
- Workforce Development Centers



# Integrating Economic Development with Affordable Housing



Economic Development Activities (EDA) must be developed In Conjunction With Affordable Housing Activities, meaning that the Community Service Facility or neighborhood-based business must be:

1) Physically proximate:

- For a Metropolitan Area, being located within the same census tract or within 1 mile of the Affordable Housing.
- For Non-Metropolitan Area, being located in the same county or within 10 miles of the Affordable Housing.

AND

2) Benefit residents of Affordable Housing

# Economic Development as Part of a Concerted Strategy



- Economic Development Activities, In Conjunction With Affordable Housing Activities, must implement a Concerted Strategy to stabilize or revitalize a Low-Income Area or Underserved Rural Area.
- Concerted Strategy: Formal planning document that evidences the connection between Affordable Housing Activities and Economic Development Activities.
- These documents include, but are not limited to, a comprehensive, consolidated, or redevelopment plan, or some other local or regional planning document adopted or approved by the jurisdiction.

# Creative Ways to Use CMF



There are many diverse ways to use a CMF Award:

- Many Recipients set up loan funds that may be used for predevelopment funding, construction loans, bridge financing or permanent debt.
- Some Recipients blend the CMF Award with a larger financing pool, bringing down the overall interest rate to borrowers.
- Others use the CMF Award as a Loan Loss Reserve or subordinate gap financing to reduce the risk to private investors.
- Some provide down payment and closing cost assistance to first-time home buyers.
- These are just examples of the many innovative ways the CMF Award may be used.

# Preparing to Apply for CMF



1. **Read the CMF Interim Rule** (as amended February 8, 2016; 12 CFR Part 1807)
2. **DUNS and EIN Number:** Ensure that the named CMF Applicant has a current and valid Dun and Bradstreet Data Universal Numbering System (DUNS) number and Employer Identification Number (EIN).
3. **SAM.gov:** Register for or verify you have an active and valid System for Awards Management (SAM) account ([www.SAM.gov](http://www.SAM.gov)).
4. **Grants.gov:** You will also need to submit certain Application materials through Grants.gov (the SF-424). To do so, you must have an active SAM.gov registration, as well as current and valid DUNS and EIN numbers.
5. **AMIS:** Applicants will submit most Application materials through the CDFI Fund's Award Management Information System (AMIS). If you don't already have an AMIS account, you must create one at [amis.cdfifund.gov](http://amis.cdfifund.gov). Click the link for "Login" and then select "Join our Community."